



AR91

Saskatchewan Auto Fund
ANNUAL REPORT

2008

Saskatchewan Auto Fund

2008

VISION

We will be the best customer-driven
and affordable automobile insurance plan in Canada.

VALUES

INTEGRITY

Conducting ourselves with honesty, trust and fairness

CARING

Acting with empathy, courtesy and respect

INNOVATION

Implementing creative solutions to achieve our vision



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Letter of Transmittal

Regina, Saskatchewan
March, 2009

To His Honour,
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Your Honour,

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2008, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act*.

I have the Honour to be, Sir,

Your obedient Servant,



Honourable Ken Cheveldayoff
Minister of Crown Corporations

Minister's Message



It continues to be an exciting, rewarding time for CIC and its 12 subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by Maclean's magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of Canada's Top 100 Employers. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

The Saskatchewan Auto Fund experienced some financial challenges in 2008, largely due to higher claim costs and lower investment earnings. Despite these financial challenges, Saskatchewan residents continue to benefit from the lowest automobile insurance rates in the country. SGI continues to be forward-looking, with a clear focus on education and traffic safety awareness.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

Looking ahead to 2009, SGI remains committed to providing the best customer-driven and affordable automobile insurance plan in Canada. SGI is led by an experienced leadership team and its employees are focused on serving customers.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present the Saskatchewan Auto Fund's 2008 Annual Report.

A handwritten signature in black ink, reading "Ken Cheveldayoff".

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Chair's Message



Like many auto insurance organizations, the Saskatchewan Auto Fund experienced a challenging year in 2008 because of rising claim costs and declining investment earnings, and will likely experience a challenging year again in 2009.

I extend a sincere thank-you to all SGI staff for their hard work throughout the year toward achieving our vision of becoming the best customer-driven and the most affordable automobile insurance plan in Canada.

We rely on SGI employees to provide excellent customer service and to play a pivotal role in delivering new programs and services. I also acknowledge the continued hard work and dedication of our management team.

The Board of Directors also recognizes and thanks Jon Schubert for his contributions to the success of the Auto Fund. SGI appreciates his many years of leadership, and we all wish him well in his new role. Special recognition should also be extended to Earl Cameron for demonstrating his commitment to SGI by serving in the role of Acting President and CEO.

A handwritten signature in black ink, appearing to read "Warren Sproule".

Warren Sproule
Chair, SGI Board of Directors

President's Message



The Saskatchewan Auto Fund experienced a year of transition in 2008 as we faced both a growing province and a changing economy. Despite these challenges, we remained committed to our vision of providing the best customer-driven and affordable automobile insurance plan in Canada.

Financially speaking, 2008 was a challenging year for the Auto Fund. The Auto Fund posted a deficit of \$42.7 million in 2008, reducing its Rate Stabilization Reserve (RSR) to a balance of \$102.5 million.

In 2008, SGI met the needs of a growing province, as indicated by an increase of approximately 49,000 registered vehicles and trailers – a 5.3% increase from 2007. This is the largest increase in registered vehicles in the province in over 20 years. The higher number of registered vehicles generated an increase in total premiums of 9.1%.

However, this higher premium growth was more than offset by increased claim costs and significantly lower investment earnings, contributing to the decrease in the RSR.

Claim costs increased by 6.0% in 2008, largely due to inflation in the costs for autobody labour and parts, as well as income replacement benefits. In addition, investment earnings were lower than expected, which is primarily a result of the unprecedented decline in worldwide financial markets.

Despite these challenges, we are committed to our vision, measuring our progression based on our success at meeting corporate strategies. In 2008, these corporate strategies focused on our customers, our business infrastructure and our employees – with a large majority of targets either met or exceeded.

Our customers

One of the Auto Fund's primary goals is to anticipate and exceed customer expectations. It is SGI's vision to be customer driven, which means the needs of our customers is our top priority. We believe our focus on providing quality customer service sets us apart in the insurance industry.

In 2008, we continued to offer the lowest average private automobile insurance rates in Canada, according to a cross-Canada rate comparison. The comparison looked at the 34 vehicles most commonly registered in Saskatchewan and compared rates here to those available in other provinces.

In order to maintain the lowest rates in Canada, the Auto Fund needs the security of a sufficient RSR. This reserve is needed for two main reasons: to meet policyholders' obligations for policies sold that expire after year-end; and to cushion customers from rate shock in the event of a downturn in financial results. That, in turn, allows us to provide customers with stability in coverage and rates.

In 2008, due to higher claim costs, and a decline in the value of investments, the reserve was below its target range. Despite this decrease for the Auto Fund, customers still enjoyed stable automobile insurance rates without any increase. In fact, SGI has not raised automobile insurance rates since 2000.

To determine our progress towards our goal of exceeding customer expectations, SGI looks to its customer value index (CVI) survey results. The CVI is our most comprehensive measure of how customers view the Auto Fund. The index tracks what customers think about seven key corporate values, such as having well-trained, experienced staff and listening to the concerns of our customers, and calculates an overall score for SGI out of five. Not only did our score of 3.92 for 2008 exceed our target, it was also an all-time high for SGI.

Also key to our customer strategy is our ability to deliver excellent claims service. Our goal is to have 91% of claims customers indicate they are satisfied with their experience. Our result on this measure was 89% in 2008.

These results show we're on the right track with regards to our customer strategy. However, to ensure our customers' needs are not just met, but exceeded, we constantly strive to improve and react to changes in the market. With that goal in mind, SGI introduced a number of innovative new products and services in 2008.

In February, SGI introduced a free online Saskatchewan VIN and Damage Claims History Search. The search allows customers to check a vehicle's history of damage claims in the province since 1998, as well as its most recent Saskatchewan registration expiry date and if it has been given a status such as rebuilt, stolen, non-repairable or total loss. To perform the search, a customer simply needs the Vehicle Identification Number (VIN), which can be found on both the vehicle and the registration certificate. This service provides greater access to information and helps Saskatchewan residents make informed decisions when purchasing a used vehicle. This service is popular, with 139,298 searches performed since it was launched. The online search supplements SGI's existing Cross-Canada VIN Search.

Customers who made an environmentally friendly choice by purchasing a low-emission vehicle were rewarded with a 20% "green" rebate from SGI based on their 2007 insurance and registration fees. About 3,400 customers received an average rebate of \$172 in 2008. The program applies to all hybrid vehicles, as well as fuel-efficient vehicles identified by the Government of Canada's *ecoAUTO* program for model years 2006 and newer.

Also in 2008, we announced we're switching from steel to aluminum licence plates. The new aluminum licence plate allows for a more environmentally friendly manufacturing process. In addition, the font style will be updated, making it easier for law enforcement and the public to read at a quick glance. The new licence plates will be available for use in 2009.

Our business infrastructure

A major component of SGI's business infrastructure strategy is the Auto Fund system redevelopment project, the largest project ever undertaken by SGI. Initiated in 2005 to revitalize our computer system, SGI remained dedicated to the project throughout 2008.

Due to the complexity of the project and to better manage the workload, the project is being implemented in several releases, scheduled for completion in 2010. Following on the heels of some key release implementations in 2007, two releases took place in 2008.

In March, we implemented a new vehicle inspection station management computer system. The new system improves the accessibility and storage of information used by our Vehicle Standards and Inspection department.

In November, we implemented a new driver's licence issuing system. We also made several upgrades to existing systems, including the Medical Review management system and the Driver Programs system.

Upcoming phases of the project include a new vehicle registration and insurance system, and an online driver's licence renewal system, allowing customers to renew their driver's licence online. These system improvements and additional service options make it easier than ever for our customers to do business with SGI.

Our employees

Contributing enormously to our success and growth in 2008 was the hard work and dedication of our employees. SGI is fortunate to have a mix of long-term, experienced employees and enthusiastic new employees. This combination of knowledge and expertise with fresh ideas and enthusiasm is a definite advantage for SGI.

To help us achieve our goal of a representative workforce, we focused our efforts on recruiting employees who accurately reflect the demographics of Saskatchewan's population, in particular youth and Aboriginal employees.

In 2008, we were selected as one of Canada's Top 25 Best Diversity Employers. The award recognizes the nation's leaders in workplace diversity and inclusiveness programs. SGI was the only company in Saskatchewan to receive the award, which demonstrates our commitment to building a diverse and representative workforce.

To ensure we retain our talented pool of employees, SGI is committed to providing a work environment that allows employees to perform at their highest level. As such, our employees have access to developmental opportunities to enhance their skills.

We work hard to engage employees in the work they do. To measure employee engagement, SGI calculates an Employee Value Index (EVI) twice a year, based on answers to 11 employee satisfaction questions. While EVI results in 2008 were slightly below our target, the results are consistent with those we have seen over the past three years.

In 2008, we had the honour of being named one of Canada's Top 100 Employers for the second consecutive year. Making the Top 100 list for a second straight year is a reflection of the employee-friendly work environment at SGI. It is also a credit to our talented, customer-focused management and employees who make SGI such a great place to have a career.

The positive results and recognition we saw in 2008 tell us we're making progress with our employee strategy. In the years to come, we can build on these accomplishments by taking on new challenges and focusing first and foremost on the needs of our customers.

In October, SGI lost a long-term employee when President and CEO Jon Schubert accepted a position as President and CEO of the Insurance Corporation of British Columbia. Jon served as President and CEO from July 2004 to October 2008. Under Jon's leadership, SGI produced strong financial results, established clear visions and values and enhanced its focus on customer service. Jon achieved these accomplishments while keeping SGI vehicle rates affordable and among the lowest in Canada. We thank Jon for his 27 years of service with SGI.

Our employees worked hard in 2008 to achieve these results. I am confident their efforts will continue in 2009 as we strive to offer the best customer-driven automobile insurance plan in the country.



Earl G. Cameron
Acting President and CEO

Traffic Safety

One of the key strategies to drive the Auto Fund in becoming the best customer-driven and affordable insurance plan in Canada centres around road safety.

For over 60 years, SGI has created safer communities by continually striving for improved road safety throughout the province. As part of the community, we are committed to keeping the people of Saskatchewan safe.

This commitment is reflected in our road safety programs, education and legislation that not only promote safety practices, but bring a better understanding of safety issues to everyone.

In 2006, we developed a long-term Traffic Safety Strategy to further help save lives, reduce injuries and lower claim costs.

Our traffic safety goals are simple and clear – we want to prevent deaths, serious injuries and property damage due to traffic collisions.

To achieve these goals, the strategy takes aim at:

- improving use of occupant protection (seatbelts, child restraints and head restraints);
- addressing human factors such as new drivers, aging drivers, distracted drivers, fatigued drivers and motorcycle and bicycle safety;
- reducing impaired driving (alcohol, drugs, fatigue and distraction);
- improving intersection safety;
- better speed management; and
- improving the design and operation of road systems.

In 2008, the strategy remained our guiding force as we worked towards meeting these objectives by developing a number of innovative traffic safety initiatives.

Promoting seatbelt safety

Working towards our goal of improving the use of occupant protection, SGI introduced two new seatbelt safety initiatives in 2008: the Seatbelt Challenge and the Multi Agency Seatbelt Team.

Seatbelt Challenge

The Seatbelt Challenge is a new community-driven project designed to improve seatbelt use in the province. By partnering with communities across Saskatchewan, we raised awareness about buckling up through roadside

activities and community-based events. Participating in the challenge pilot were communities in the Heartland and Prairie North health regions.

The community in each region with the highest increase in seatbelt usage won a cash prize of up to \$50,000 to be used for local road safety improvements. Kindersley and Onion Lake won their respective challenges, and all but one community that participated in the challenge saw an increase in seatbelt usage rates. With the success of the pilot, the Seatbelt Challenge will continue in 2009.

Multi Agency Seatbelt Team check stops

To keep seatbelt use top of mind in Saskatchewan communities, SGI partnered with municipal police services and RCMP Traffic Services across the province, as well as the Canadian National Police and the Canadian Pacific Police, to form the Multi Agency Seatbelt Team (MASTeam).

MASTeam conducted seatbelt check stops in the communities of Moose Jaw, Saskatoon, Estevan and Prince Albert in 2008. SGI sponsored the cost of meals and accommodations for participants that were from out-of-town.

A total of 725 seatbelt charges were issued across the four communities, serving as a reminder to all Saskatchewan residents that it pays to buckle up. SGI plans to expand its MASTeam check stops to additional communities in 2009.

Supporting new drivers

To provide new drivers with the support they need to be successful in getting their driver's licence, SGI introduced Parent Nights and a practice log for new drivers.

Practice log for new drivers

The practice log for new drivers helps ensure new drivers get the amount of practice they need in a variety of driving conditions. As a result, new drivers will be better prepared when it comes time to take their driver test.

SGI is even offering an incentive to track driving practice – the chance for new drivers to win one of 10 \$250 gas cards when they complete the log sheet and submit it to SGI.

Parent Nights

Hosted by driver instructors in communities across Saskatchewan, Parent Nights are an orientation for parents and guardians of students enrolled in high school driver education courses.

SGI encourages all parents and guardians to attend a Parent Night in their community, to support their child throughout the driver education course.

Traffic safety play

In a continued effort to bring safety messages to Saskatchewan's Aboriginal youth, SGI commissioned a play that tackled issues like driver distraction, impaired driving, seatbelts and speeding.

"Roadies" was performed in 14 Saskatchewan communities by the Saskatchewan Native Theatre Company, a Saskatoon troupe made up of young Aboriginal actors from across the province.

Young drivers are over-represented in collisions. By using peers to teach young people safety lessons they can share with friends and family well into adulthood, SGI anticipates improved traffic safety for all Saskatchewan drivers.

Driver refresher course for mature drivers

To address the aging population in Saskatchewan, SGI increased its sponsorship of the 55 Alive Driver Refresher Course.

55 Alive is a refresher course for drivers aged 55 and over. As drivers age, they begin experiencing changes in vision, reflexes, flexibility and hearing. The course teaches mature drivers how to adjust their skills to compensate for those changes.

Courses are offered by the Saskatchewan Safety Council in southern Saskatchewan and the Saskatoon and District Safety Council in northern Saskatchewan. The funding provided by SGI allowed the safety councils to offer more classes to mature drivers across the province.

Commercial carrier safety seminars

Furthering its commitment to road safety programs, SGI teamed up with the Ministry of Highways and

Infrastructure to provide safety seminars for bus and trucking companies.

The safety seminars provided commercial carriers with the opportunity to learn about a range of topics, such as the carrier profile, record-keeping requirements and hours of service regulations. SGI co-ordinated the seminars and funded all associated costs.

Seminars were offered in both Regina and Saskatoon in the spring and fall. In total, 264 participants representing 197 different bus and trucking companies attended the seminars.

In 2009, seminar locations will be expanded to include North Battleford, Prince Albert, Estevan and Swift Current.

Investing in intersection improvements

Demonstrating our commitment to improving intersection safety, SGI partnered with the cities of Prince Albert, Regina and Saskatoon between 1996 and 1998 to launch the Intersection Improvement Program in these cities.

The Intersection Improvement Program is designed to enhance traffic safety by reducing the frequency and severity of crashes at high-risk urban intersections. The program relies on low-cost traffic safety engineering enhancements, such as re-timed traffic signals, skid-resistance treatments and dedicated left turn lanes. Improvements were made at eight intersections across the three cities.

In 2008, we measured the results of these improvements and were pleased to see the program produced significant results. After just two years, the number of collisions at these high-risk intersections was reduced by 8.5% in Prince Albert, 10.2% in Saskatoon and 12.6% in Regina. The long-term societal benefits of these improvements will be realized through reductions in crash costs associated with medical care, emergency services and productivity losses over the next five to 10 years.

Due to the positive results from this program, SGI contributed \$150,000 to the City of Saskatoon for an intersection improvement in 2008, and will be looking at expanding the intersection improvement project to cover other sites in the coming years.

In Your Community

SGI is committed to strengthening Saskatchewan communities. We believe that by investing in the communities we serve, we benefit not only our customers, but our province.

To enrich the lives and communities of Saskatchewan people, SGI is proud to focus its support on community interests related to traffic safety, youth excellence and diversity.

In 2008 our employees took an active role in giving back, demonstrating our corporate value of caring at work.

Community Action Team

Our employees share SGI's commitment to giving back. This year we introduced the Employee Philanthropy Program, which is governed by a staff representative committee called the Community Action Team (CAT).

CAT reviews and creates opportunities for SGI to give back to community initiatives in Saskatchewan that are important to our employees, such as arts and culture, health, the environment, education and business.

Through CAT, we can make more meaningful contributions to initiatives where we live and do business.

CAT supported a number of community organizations and events in 2008, including Child Find Saskatchewan, Souls Harbour Mission, Battlefords Union Hospital Foundation, the Heart and Stroke Foundation, Telemiracle and Camp Easter Seal.

Sponsoring safe rides home

Honouring our commitment to support traffic safety, SGI continued its sponsorship of events that promote designated driver and other safety programs.

In 2008, SGI sponsored a variety of festivals, concerts and sporting events across the province to promote traffic safety messages, such as wearing a seatbelt and always planning a safe ride home.

SGI sponsored 46 events across the province in 2008 and provided funding to promote designated driver messaging or safe ride shuttles. Among these events were the 7th Annual Saskatoon Blues Festival in Saskatoon, the Ness Creek Music Festival in Saskatoon, the Craven Country Jamboree in Craven and the SGI Labour Day Safe Ride in Regina.

Our goal is to reduce the number of impaired driving and safety related incidents. By ensuring the people of Saskatchewan have a safe and sober ride home, and raising awareness through advertising, we hope to keep traffic safety top of mind at these events.

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to February 24, 2009. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on SGI's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on February 25, 2009, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (denoted as the Auto Fund or the Fund) financial statements with insight into the Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, 2008 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2009. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding the Saskatchewan Auto Fund objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on the Auto Fund's forward-looking statements, which only apply as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the Fund's or the administrator's behalf.

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The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act (AAIA)*. The Saskatchewan Auto Fund was established effective January 1, 1984 by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Saskatchewan Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance coverage provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance also includes injury coverage that provides an option to choose between No-Fault Coverage and Tort Coverage. This basic insurance package allows a currently registered vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act*, *The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with related regulations created by these acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act, 1993* and Part IX of *The Insurance Companies Act (Canada)* regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act*. It also has administrative, enforcement and other related duties under other provincial acts and regulations and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term timeframe. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

Financial results for the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. Financial results for the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as permitted by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The Auto Fund at December 31, 2008 had 415 motor licence issuers¹ in 311 communities across Saskatchewan. It also operates 21 claims centres and five salvage centres in 13 communities across the province along with seven branch licence issuing offices. The Auto Fund business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

¹ This and other terms are defined in the Glossary of Terms beginning on page 70.

The Auto Fund's quarterly and annual reports are available on SGI's website at www.sgi.sk.ca. Navigate to About SGI and then click on Quarterly Reports or Annual Reports.

The Environment the Auto Fund Operates In

The Auto Fund's customers are Saskatchewan residents as it provides all residents with automobile injury coverage with an option to choose between a no-fault or tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP), whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 704,000 drivers and approximately 975,000 vehicles and trailers in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops and law enforcement agencies, to health care providers. These business partners are involved in different aspects of the operations of the Auto Fund from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services to those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender, or where they live to determine a vehicle insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering residents of Saskatchewan low rates, the Auto Fund does face challenges. Claim costs represented approximately 83% of the Auto Fund's costs in 2008. Over the last 10 years, damage claim costs have increased at an average annual rate of 5.9%, while personal injury has grown at approximately 1.7% annually. Adding to the challenge in 2008 was the difficult investment climate experienced, as the investment portfolio is a significant source of capital and revenue for the Auto Fund.

New and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles, and parts prices along with labour rates continue to rise. As a result, claim costs continue to climb as repair costs outpace inflation.

Injury costs also rise on a yearly basis as injury benefits under No-Fault Coverage are indexed to inflation each year. Tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

The Auto Fund has not implemented a general rate increase since 2000. In 2008, the Auto Fund returned just under \$600,000 to customers in the form of a rebate, whereby eligible customers that owned an eco-friendly or hybrid vehicle were granted a 20% discount on their 2007 insurance premiums and registration. The initiative will again be offered in 2009.

The Auto Fund also offers Safe Driver Recognition (SDR) and Business Recognition programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The initial maximum discount of 7% under the SDR program has steadily increased and is

currently at 20%. The maximum discount available in the Business Recognition program is 10%. The cost to the Auto Fund in 2008 in terms of lower premium revenue was \$81,597,000 (2007 – \$74,388,000).

Strategic Direction

The Auto Fund's Vision and Values are as follows:

Vision

We will be the best customer-driven and affordable automobile insurance plan in Canada.

Values

Integrity – Conducting ourselves with honesty, trust and fairness

Caring – Acting with empathy, courtesy and respect

Innovation – Implementing creative solutions to achieve our vision

Corporate Strategies

To meet its overriding strategic goals, the Auto Fund's main areas of focus are:

Our Customer;

Our People; and

Business Infrastructure.

Within these areas, specific strategic initiatives and key targets measure performance towards being a customer-driven insurance program that anticipates expectations of its customers while maintaining affordability. The Auto Fund uses a balanced scorecard approach to monitor performance and results. The objective of a balanced scorecard is to provide a balanced evaluation of key operational and financial results, activities and achievements with both a short and long-term focus. The following discusses key initiatives in each area of strategic focus as well as related key performance indicators from the balanced scorecard.

Our Customer

The Auto Fund's success is measured against a goal of being the best customer-driven and affordable automobile insurance plan in Canada. It has developed key objectives to achieve this: delivering the lowest average private vehicle rates in Canada, anticipating and exceeding customer expectations, operating a business that is valued by its customers, fairness in rating and working to reduce motor vehicle crashes and resulting fatalities and injuries.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR.

One of the key strategies to help the Auto Fund become the best customer-driven and affordable automobile insurance plan in Canada pertains to road safety. Customers value the Auto Fund for its role in promoting traffic safety in the province. The Auto Fund is always looking at new and innovative ways to improve traffic safety. Over the years, the Auto Fund has evolved into a national leader in the area of road safety programs, education and legislation. The Auto Fund has a long-term traffic safety strategy, which was implemented to further help in saving lives, reducing injuries and lowering claim costs. This strategy focuses on six key areas – impaired driving, occupant protection, intersection safety, speed management, roadway-based solutions and human factors.

The following table summarizes the key performance indicators in the balanced scorecard to monitor the above initiatives:

Legend: ● achieved ○ did not achieve

Measure	2008 Target	2008 Results	2009 Target
Cross-Canada rate comparison	Lowest average private vehicle rates in Canada	● Saskatchewan has the lowest private vehicle rates in Canada	Lowest average private vehicle rates in Canada
Customer Value Index Survey (out of 5)	3.70	● 3.92	3.71
Claims customer service survey	91% satisfaction rating	○ 89% satisfaction rating	91% satisfaction rating
Corporate image rating	Maintain a three-year rolling average of 75%	● 78%	Maintain a three-year rolling average of 75%
Maintain an adequate RSR	MCT target between 100% to 125%	○ 61%	MCT target between 100% to 125%
Fairness in rating	79% of light vehicle rates within 10% of CLEAR	● 79% of light vehicle rates within 10% of CLEAR	79% of light vehicle rates within 10% of CLEAR
By 2010 reduce the number of fatalities by 30%, injuries by 20% and property-damage-only collisions by 10%	By 2010: Fatalities: 158 to 110 Injuries: 7,500 to 6,000 PDOs: 37,500 to 33,750	○ Fatalities: 156 Injuries: 6,748 PDOs (2007): 44,377	By 2010: Fatalities: 158 to 110 Injuries: 7,500 to 6,000 PDOs: 37,500 to 33,750

Cross-Canada rate comparison

SGI's Cross-Canada rate comparison considers Saskatchewan's 34 most frequently registered vehicles and compares rates to those of public insurers in British Columbia, Manitoba and Quebec. For private insurance provinces, quotes are obtained from an independent rate quotation service that collects information directly from private insurers across Canada. The rate comparison is subject to audit by an independent accounting firm.

In 2008, the rate comparison concluded that Auto Fund customers benefited from the lowest average private vehicle insurance rates in Canada. For 2009, the Auto Fund's target is again to have the lowest average private vehicle rates in Canada.

Customer value index

The customer value index (CVI) is a comprehensive measure for tracking customer satisfaction. The CVI tracks seven key areas of importance – overall management; listening to the concerns of customers; having well-trained, experienced staff; educating and informing the public; behaving in an ethical, responsible manner; maintaining low rates relative to other parts of Canada; and providing high standards of customer service. Based on the results of regular customer surveys, the CVI takes these seven areas of importance and calculates an overall score for the Auto Fund out of five. The Auto Fund

exceeded its target of 3.70 out of 5.00 in 2008, achieving 3.92 out of 5.00, the highest level it has achieved. The Auto Fund believes it has achieved this score in part due to last year's premium rebates and rate reductions. As these are not ongoing initiatives, the target for 2009 has been increased slightly to 3.71 out of 5.00.

Claims customer service survey

The Corporation conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 91% approval rating. The latest survey results indicate an 89% satisfaction level, a 1% decline from 2007. While the result is strong, it is still slightly below the target of 91%. The target for 2009 remains a 91% satisfaction level and the Corporation is working hard to achieve it.

Corporate image rating

The corporate image rating measures overall customer perceptions by asking a representative sample whether they have a positive or negative image of the Auto Fund. The Auto Fund's three-year average corporate image rating as of 2008 was 78%, which exceeded the target of a three-year rolling average of 75%. The target for 2009 is maintaining a three-year rolling average of 75%.

Maintain an adequate RSR

The Auto Fund establishes its target capital level based on a property and casualty industry measurement of capital adequacy called the Minimum Capital Test (MCT). The Auto Fund's target range for the MCT is 100% – 125%, which equated to approximately \$180.0 million to \$226.4 million at December 31, 2008. The actual RSR balance at December 31, 2008 was \$102.5 million.

The Auto Fund MCT score of 61% was lower than the target range due to the significant downturn in the global capital markets that materialized in the last half of 2008. Investments form a significant portion of an insurance company's asset base, and as such have a material impact on the MCT calculation. A significant driver of the Auto Fund's MCT score being lower than the target range was unrealized losses on the portfolio, which were \$21.1 million at December 31, 2008, a reflection of the depressed investment climate experienced in the latter part of 2008. For comparative purposes, the Auto Fund had an MCT of 132% at December 31, 2007, and unrealized gains of \$68.3 million on its investment portfolio.

The Auto Fund continues to have a target range for 2009 for the MCT of 100% – 125%.

Fairness in rating

To ensure fair rating for light passenger vehicles, the Auto Fund utilizes Canadian Loss Experience Automobile Rating (CLEAR). CLEAR is administered by the Insurance Bureau of Canada and captures Canada-wide loss experience for light passenger vehicles 15 years of age or newer. If rates are not reviewed and rebalanced regularly, over time the rates for some vehicles will be too high, while those for others will be too low. The Auto Fund's objective is to achieve rates for light vehicles in Saskatchewan within 10% of CLEAR. Its target for 2008 was for 79% of light vehicle rates to be within 10% of CLEAR, and it achieved the target.

In 2009, the Auto Fund targets 79% of light vehicles to be rated within 10% of CLEAR.

Reducing fatalities and serious injuries

The Auto Fund's traffic safety goals are simple and clear – to prevent deaths and serious injuries due to traffic collisions. However, fewer collisions also mean lower claim costs, so work in this area also supports the goal of maintaining low rates. The targets for this objective reflect the Auto Fund's long-term traffic safety strategy.

The traffic safety strategy has six key areas of focus: reducing impaired driving; improving use of occupant protection; improving intersection safety; better speed management; implementing additional roadway-based solutions; and addressing human factors such as new drivers, aging drivers and distracted drivers.

The target is, by 2010, to reduce the number of traffic deaths by 30%, injuries due to traffic collisions by 20% and property-damage-only collisions by 10% when compared to the averages between 1996-2004.

Our People

The Auto Fund's people strategies for 2008 focused on two areas: growing its people talent and building employee engagement.

In 2009, the Auto Fund has added new measures related to being a high-performance organization. There are three key parts to being a high-performance organization. First, employees must clearly understand where the organization plans to go and how they fit into those plans. Second, each employee must clearly understand the results they are expected to achieve and they must deliver those results. Third, when they achieve those results, they must be recognized for their efforts. In 2009, the Auto Fund is adding two additional measures focusing on being a high-performance organization: the strategic clarity index and the recognition index.

Key performance indicators in the balanced scorecard to monitor the above initiatives are:

Legend: ● achieved ○ did not achieve

Measure	2008 Target	2008 Results	2009 Target
Grow people talent – new hires who are designated group members	25%	● 28.3%	25%
Employee value index	71%	○ 67.6%	72%
Strategic clarity index result	New measure in 2009	New measure in 2009	77.5%
Recognition index result	New measure in 2009	New measure in 2009	54%

Grow people talent

Provincial and corporate demographics demonstrate the need to recruit a workforce representative of the population. The Auto Fund strives to meet additional goals to help it achieve a truly representative workforce. It has established targets for all designated groups, including women in management, Aboriginal, people with disabilities and visible minorities. Results in all areas in 2008 were good, exceeding targets for most of the designated groups. The Corporation also targeted 25% of new hires to be from designated groups and exceeded the target with 28.3%. The Auto Fund continues to target these areas in 2009.

Employee engagement

The Auto Fund recognizes that the key to achieving all its goals is employing the right people and giving them a good environment to work in. Therefore, it puts emphasis on building employee engagement. Results from the Auto Fund's 2005

employee survey were used to calculate a benchmark score for employee engagement of 64.8%. Beginning in December 2006, the Auto Fund began measuring employee engagement against the benchmark through an employee value index survey. The result for 2008 was an employee value index score of 67.6%, slightly lower than the 2008 target of 71.0%.

The goal for 2009 is a score of 72% and the Auto Fund will continue to put emphasis on achieving this important objective.

Strategic clarity index

Strategic clarity is achieved when employees understand the strategic direction of the Auto Fund, how their work contributes to achieving strategic goals and the progress the Auto Fund is making towards its strategic goals. The strategic clarity index measures how well employees believe the Auto Fund is achieving those three goals. Results from the 2008 employee survey were used to tabulate a benchmark strategic clarity index score of 76.5%.

The target for 2009 is a score of 77.5%.

Recognition index result

The Auto Fund recognizes that the achievements and efforts of employees is a key part of achieving high performance. The recognition index measures how well employees believe the Auto Fund is recognizing their efforts and achievements. Results from the 2008 employee survey were used to tabulate a benchmark recognition index score of 52.9%.

The goal for 2009 is a score of 54%.

Business Infrastructure

A common pillar supporting many of the Auto Fund's strategies and initiatives is business infrastructure. Computer systems must be available in order to operate the business. If these systems were unavailable for a significant amount of time, business would suffer. To reduce the amount of potential down time, the Auto Fund, through SGI, has an agreement with a related party that provides alternative computing services if systems are unavailable for a significant amount of time.

The key performance indicators in our balanced scorecard to monitor the above initiative are:

Legend: ● achieved ○ did not achieve

Measure	2008 Target	2008 Results	2009 Target
Availability of business systems	99.5% of designated hours of operation and development of a business prioritization process	● 99.7% of designated hours of operation and prioritization process completed	99.5% of designated hours of operation
Redevelopment project implementation versus plan	Complete releases 2.1 and 2.2	● Completed	Complete releases 3.0 and 4.0
Manage administrative expense	6.9%	○ 7.2%	7.0%
Enhance enterprise risk management process	Gap analysis and develop action plan	● Gap analysis and action plan completed	Implement the action plan

Availability of business systems

This measures the Auto Fund's success in having its computer business systems available for use by staff and motor licence issuers during specific hours of the day and for specific days of the week. For 2008, the target was exceeded and for 2009, the target is the same as 2008. This is reflective of the importance to operations of maintaining the availability of computer systems.

In addition, in 2008 the Auto Fund targeted to develop a business prioritization process. The Auto Fund has many important initiatives ongoing, and most require systems resources. This target is an important initiative towards ensuring systems resources are deployed effectively. The business prioritization process was completed during 2008.

Auto Fund redevelopment project

The Auto Fund redevelopment project was initiated in 2005 to update the infrastructure in place to help improve operations and deliver enhanced products and services to customers. The five-year, \$35 million project will result in a system that is completely integrated, provides real-time processing and facilitates Internet transactions. The project had two significant releases during 2008 related to vehicle standards and inspections, and the driver licensing system. The remainder of the Auto Fund redevelopment project is still tracking on time and on budget as of the end of 2008.

Manage administrative expenses

To ensure effective use of resources, the Auto Fund is expected to manage its allocated administrative expense budget such that the Auto Fund remains within its administrative expense ratio. The administrative expense ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted administrative expense ratios within the specified time period.

The Auto Fund ratio was slightly higher than planned at 7.2% compared to its target of 6.9%.

The target for 2009 is 7.0% and the Auto Fund will continue to work hard towards this important objective.

Enhance enterprise risk management program

The Auto Fund has been actively identifying, managing and prioritizing its risks for several years. Issues such as quantifying risks using actuarial modelling techniques will be explored to determine the benefits of this evolving process in risk management. In 2008, a gap analysis on the current process was completed with an industry expert in this field. An action plan was developed from that analysis and will be implemented in 2009. Given the nature of the insurance business, risk management is a particularly important objective.

The target for 2009 is for the Auto Fund to implement the action plan.

Capability to Execute Strategies

Fundamental to the capability to execute strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average 16 years; and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, employees have significant expertise in the core areas of the Auto Fund including licensing and registration, driver and vehicle safety services, claims handling, as well as within the support areas.

SGI, as the administrator of the Auto Fund, is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 29% of employees are expected to retire or be eligible for retirement by 2016. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI utilizes a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model assists in transitioning expertise as retirements occur.

SGI and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a three-year Collective Bargaining Agreement (CBA), running from January 1, 2007 to December 31, 2009, on June 12, 2007. The CBA covers the majority of the non-management staff employed by SGI. SGI has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Motor Licence Issuers

The Auto Fund provides accessibility for its customers by distributing products through a network of 415 independent motor licence issuers in 311 communities across Saskatchewan and seven branch offices throughout the province. Motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan (IBAS). The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The Accord is intended to enhance the working relationship, resulting in improved service to customers. Included in the Accord are 15 agreed upon items, ranging from fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, along with teaming-up on traffic safety programs.

Technology and Systems

The Auto Fund relies on its technology and information system to deliver products and services to the motoring public. The current system is antiquated and it is becoming increasingly difficult to make changes to meet growing business demands. The Auto Fund has a major ongoing project to redevelop the Auto Fund information system. The new system will address the antiquity of the current system, offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position the Auto Fund for future demands. The cost of the project is not to exceed \$35 million and will be completed by the end of 2010.

Capital and Liquidity

As the Auto Fund belongs to the Province of Saskatchewan, its legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it uses premiums and fees from its operations, along with income generated from its investment portfolio, to fund future operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel (SRRP) reviews rate changes and then passes on its recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occur, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is

a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The target is a range of 100% – 125%, which equated to approximately \$181.0 million to \$227.6 million at December 31, 2008. The balance in the RSR at December 31, 2008 was \$102.5 million.

The MCT score of 61% was lower than the target range of 100% – 125% due to the weak investment climate experienced in 2008, as a significant portion of an insurance company's asset base is held in investments. The impact of the credit crisis that developed since September 2008, and the resulting decline in global capital markets that followed, have adversely impacted the MCT score as a result of the substantial decrease in the Auto Fund's unrealized gains on its investment portfolio. The net unrealized losses within the investment portfolio at December 31, 2008 were \$21.1 million, compared to net unrealized gains of \$68.3 million at December 31, 2007.

Management is monitoring the impact of the unprecedented capital market events on the Auto Fund's capitalization. While the Auto Fund continues to hold a high quality and well diversified investment portfolio, challenges may exist in generating investment gains should the market decline be prolonged.

2008 Financial Results

For the year ended December 31, 2008

Statement of Operations

Overview

In 2008, Auto Fund operations resulted in a decrease to its RSR (deficit) of \$42.6 million (before rebates paid to policyholders), compared to an increase to its RSR (surplus) of \$32.0 million in 2007. The Auto Fund experienced strong growth in premiums in 2008, reflective of the strong Saskatchewan economy. However, the significant downturn in global investment markets in the latter part of 2008 resulted in a significant decrease in investment earnings and is the primary reason for the deficit in 2008.

Premiums written

Net premiums written for 2008 totalled \$610.5 million, representing an increase of 9.2%, or \$51.2 million, from 2007. This increase reflects the growing economy in Saskatchewan and is attributable to a newer vehicle base in addition to positive growth in vehicle count in 2008. The number of vehicle insured years increased to 980,431 from 931,156 in 2007, a 5.3% increase. This increase surpasses 2007's increase of 3.3% and becomes the largest increase in registered vehicles in the province in over 20 years.

The Safe Driver Recognition and Business Recognition programs continue to return dollars to Auto Fund customers each year. In 2008, these programs returned \$81.6 million to customers through safe driving discounts, compared to \$74.4 million in 2007. Expressed as a percentage of vehicle premiums, this equates to an average discount of 11.8% for 2008 (2007 – 11.9%). The maximum discounts available under each program are 20% for the Safe Driver Recognition program and 10% for the Business Recognition program.

Claims incurred

Claims incurred in 2008 were \$564.0 million, which was \$31.8 million, or 6.0%, higher than 2007. The following table details the claim costs by categories:

thousands of \$	2008	2007	Change
Damage claims (current year)	\$ 351,668	\$ 344,580	\$ 7,088
Injury claims (current year)	195,369	179,077	16,292
Pre-1995 injury claims	1,506	(735)	2,241
Injury - prior year redundancy	(9,520)	(13,637)	4,117
Damage - prior year deficiency	7,038	5,249	1,789
Indexing of prior year injury claims	17,904	17,683	221
Total claims incurred	<u>\$ 563,965</u>	<u>\$ 532,217</u>	<u>\$ 31,748</u>
Loss Ratio (current year)	<u>93.0%</u>	<u>94.0%</u>	<u>-1.0%</u>
Total Loss Ratio	<u>95.9%</u>	<u>95.5%</u>	<u>0.4%</u>

Current year claim costs

Current year damage claims have grown by \$7.1 million, or 2.1%, largely a result of inflationary cost increases and significant growth in the number of insured vehicles, resulting in more collisions. This inflationary growth is from an increase in the labour rate for repairing vehicles, along with growth in the cost of vehicle parts used in the repair process. The volume of damage claims is 91,913, up 1.2% from the prior year. However, when related to the number of insured vehicles in the province, the accident frequency is declining. The number of damage claims per 1,000 insured years is 111.4 in 2008 compared to 114.8 in 2007.

Current year injury claim costs are \$195.4 million, which was 9.1% higher than the prior year due to a 5.4% increase in the volume of injury claims combined with inflationary cost increases.

Development on prior year claim estimates

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a "redundancy" exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a "deficiency" exists, resulting in an increase in claim costs for the year. During 2008, the Auto Fund decreased its estimate for prior year injury claims by \$9.5 million (2007 – \$13.6 million) and increased its reserves for damage claims by \$7.0 million (2007 – \$5.2 million). The 2008 overall redundancy recorded represented approximately 0.1% of the provision estimate at December 31, 2007 of \$824.1 million.

When the no-fault injury program was implemented in 1995, the actuary had limited information to rely on in determining the claim costs. With over 10 years of experience with the no-fault system, the Auto Fund is in a better position to estimate the cost of injury. However, factors impacting future costs such as inflation, re-occurrence rates, medical innovations and rehabilitation programs are difficult to anticipate. While the Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior year claim estimates, given the nature of this program, changes will inevitably occur in the future.

Expenses excluding claims incurred

Expenses excluding claims incurred were \$117.3 million (2007 – \$105.0 million) for the year, \$12.3 million higher than 2007. Issuer fees of \$29.1 million in 2008 increased by \$2.0 million compared to 2007. This increase reflects the 4.5% growth in the number of transactions by issuers, combined with a negotiated rate increase for issuer remuneration.

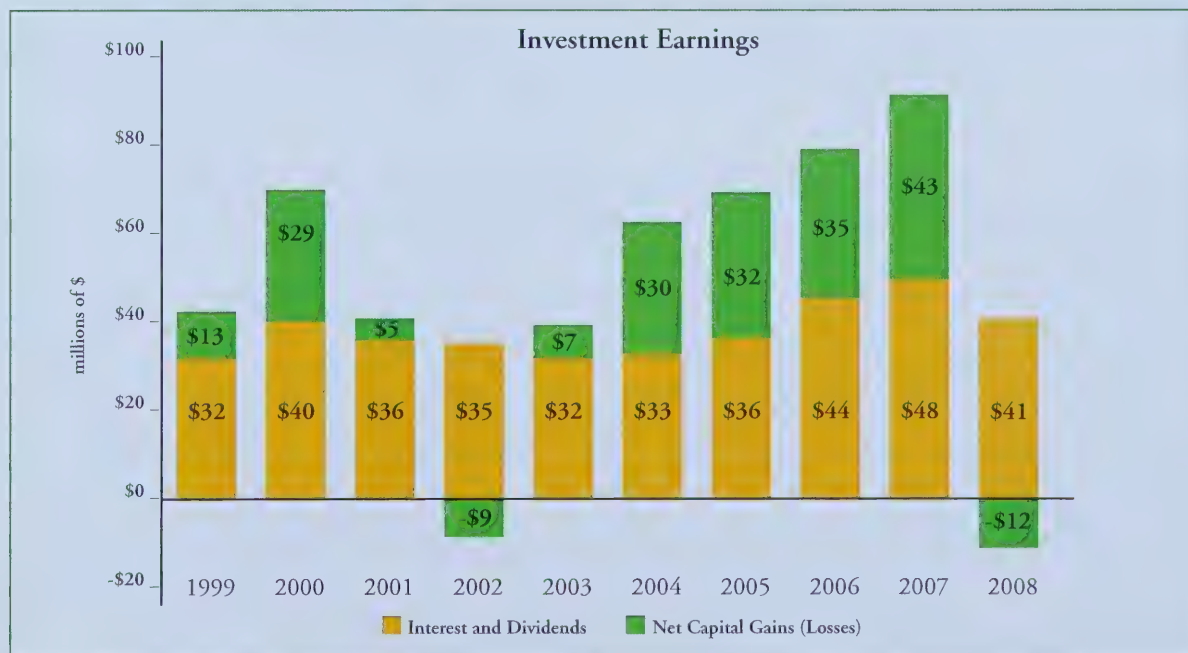
Premium taxes of \$29.5 million were \$1.5 million, or 5.5%, higher than the previous year, consistent with the growth in earned premiums. Premium taxes are 5% of direct premiums earned.

Administrative expenses increased to \$42.3 million in 2008, an increase of \$6.2 million from 2007. The major contributors to the growth were increased costs related to the redevelopment of the Auto Fund information system, staffing and benefit costs, other information systems initiatives and issuer bank charges related to increased credit card usage.

Traffic safety program spending totalled \$16.3 million, representing a traffic safety spending ratio of 2.8% of net premiums earned. This was an increase of \$2.6 million from 2007 traffic spending of \$13.7 million, which had a ratio of 2.5%.

Investment earnings

As the Auto Fund operates on a self-sustaining basis over time, investment earnings are used to help keep rates stable for vehicle owners. In 2008, investment earnings were \$29.4 million and represented 4.8% of total revenues (2007 – \$91.3 million; 14% of total revenues). These investment earnings are calculated using cost-based accounting principles, the components of which are disclosed in note 9 to the financial statements, and include interest, dividends, net realized capital gains and investment write-downs. The following chart shows the breakdown of investment earnings between interest and dividends and net capital gains (losses) over the last 10 years.



Due to the strength of the markets and the success of the investment manager in selecting stocks, investment write-downs were a minor consideration in prior years. This changed with the market downturn in the last half of 2008, resulting in total investment write-downs of \$22.7 million (2007 – \$1.2 million). Given the time necessary to recoup losses and the size of some losses, it was determined prudent to write-down the value of these investments in 2008.

Of note for 2008 is the large decrease in capital gains, reversing the trend of the last few years. Capital gains are dependent on investment market conditions, trading activity of the investment manager and initiatives of the Auto Fund. In 2007, the significant gains realized were primarily a result of rebalancing the portfolio, generally selling equities, to fund the \$100 million rebate. In 2008, market conditions deteriorated significantly as equity markets around the globe generated large losses and bonds produced only average results.

Asset Class	Benchmark Index	Annual index returns ending December 31 (%)	
		2008	2007
Canadian equities	S&P/TSX Composite	-33.0	9.8
U.S. equities	S&P 500 (\$C)	-21.2	-10.5
Non-North American equities	MSCI EAFE (\$C)	-29.2	-5.7
Bonds	DEX Universe Bond	6.4	3.7
Short-term bonds	DEX Short-term Bond	8.6	4.1

Equity market losses in 2008 were widespread with the TSX Composite Index declining 33%, the S&P 500 falling 39% (21% in Canadian dollar terms) and non-North American equities, as measured by the EAFE Index, falling 40% in aggregate local currency terms (29% in Canadian dollar terms). While foreign equities markets were weak over the last six months of 2008, the corresponding decrease in the Canadian dollar helped mitigate losses compared to local currency returns.

For the four years prior to 2008, interest and dividend income had been increasing as a result of the overall increase in the size of the investment portfolio. However, the significant drop in interest rates and the flight to safety in low yielding provincial and federal bonds over the past year has caused market yields to decrease.

For purposes of portfolio management, a market-based result is calculated which captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized. In 2008, the portfolio's market-based return was -4.9% (2007 – 5.1%). The decrease in 2008 from 2007 was a result of large negative returns in each of the Canadian, U.S. and non-North American equity markets.

The primary investment performance objective for the Auto Fund is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with the Auto Fund's risk profile and is reviewed on an annual basis. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. Performance relative to the benchmark portfolio varies from year to year, but over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph.



The annual relative performance measure underperformed the benchmark in 2008 by 1.3% due to weak relative equity returns. In addition, the flight to high-quality bonds and the resulting underperformance of corporate securities generated under-performance in bonds. While detrimental to performance in 2008, over the long term, equity exposure has historically produced higher returns than bonds. More importantly, as the economy regains positive momentum, equities tend to lead the advance by 6 – 12 months and should provide an opportunity to outperform bonds.

Other income

Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage department. In 2008, fees earned for using payment option plans totalled \$16.0 million, which was \$889,000 or 5.9% higher than 2007 driven by higher customer participation in the AutoPay monthly registration program. Salvage income of \$5.3 million (2007 – \$5.7 million) is lower than 2007 primarily as a result of increased salaries and benefits costs.

Statement of Operations – Actual versus Budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2008 budget, developed in the fall of 2007, anticipated a deficit of \$1.1 million. The actual 2008 deficit was \$42.6 million, \$41.5 million lower than budgeted. The most significant factor was the decline of the investment market.

Premiums written of \$610.5 million in 2008 were \$25.4 million higher than budgeted, and premiums earned of \$587.9 million were \$18.4 million higher than budgeted. This is a result of Saskatchewan's growing economy resulting in higher than anticipated growth in the number of vehicles insured. The number of vehicle insured years increased to 824,805 from 791,165 in 2007, a 4.3% increase.

Claim costs were \$23.4 million (4.3%) higher than budgeted, primarily due to a higher than expected number of insured vehicles. The overall loss ratio of 95.9% is quite comparable to the budgeted loss ratio of 94.9%.

The investment portfolio provided earnings of \$29.4 million, which was \$33.3 million lower than budget. The budget anticipated a 6.1% overall rate of return compared to the actual rate of return of 2.7%. The difference was primarily a result of reduced gains on sales of investments as well as investment write-downs of \$22.7 million, a level significantly higher than expected. Gains on the sale of investments and pooled equity fund revenue are dependent on the trading activity of the investment manager as well as capital market performance, they are typically difficult to budget accurately.

Statement of Comprehensive Loss

thousands of \$	2008	2007	Change
Decrease to Rate Stabilization Reserve	(42,691)	(67,305)	24,614
Other comprehensive loss	(89,422)	(36,063)	(53,359)
Total comprehensive loss	(132,113)	(103,368)	(28,745)

Comprehensive income (loss) is the sum of all increases and decreases to the Rate Stabilization Reserve and other items that are not included in operations because they have not been realized (other comprehensive income/(loss)). For the Auto Fund, this includes unrealized gains and losses from available for sale investments. These unrealized gains and losses are not part of operations, yet are important enough to be included in comprehensive income, giving a more comprehensive picture of the Fund as a whole.

Operations during 2008 resulted in a decrease to the RSR of \$42.7 million, however the comprehensive loss was \$132.1 million, including a further loss of \$89.4 million related to unrealized losses on investments. This significant loss is a result of the unprecedented market downturn which occurred during 2008, which resulted in a significant decline in the market value of the investment portfolio. During the year the investment portfolio experienced a decline in the market value of its investments of \$101.1 million. In addition, \$11.0 million of gains were realized during the year and reclassified to investment earnings within net income. As well, investment write-downs of \$22.7 million were recorded during the year related to other than temporary impairments in the value of certain investments. These investment write-downs were also reclassified as an offset to investment earnings within net income.

Statement of Cash Flows

thousands of \$	2008	2007	Change
Operating activities (excluding 2007 rebate and mid-term refund)	64,585	84,395	(19,810)
2007 rebate and mid-term refund	(68)	(126,214)	126,146
Total operating activities	64,517	(41,819)	106,336
Investing activities	(93,905)	48,020	(141,925)
Net cash flow	(29,388)	6,201	(35,589)

Cash from operations contributed \$64.5 million in 2008. In 2007, excluding the impact of the rebate to policyholders and the mid-term refund to customers, the Auto Fund generated \$84.4 million in cash from operations. The \$19.8 million decrease in cash generated from operations (excluding the 2007 rebate and mid-term refund) is primarily a result of a decrease in investment revenue collected in 2008 and higher administrative expenses paid.

During the year, \$93.9 million of cash was used for investing activities, primarily for the purchase of investments (\$83.7 million). In addition, \$10.9 million of cash was invested into property, plant and equipment for the development of the new Auto Fund system and renovations to the Regina Operations Centre building.

Cash and cash equivalents decreased \$29.4 million in 2008. During 2008, the Auto Fund reinvested money market investments classified as cash equivalents in longer-term investments, resulting in the decline of cash and cash equivalents. These cash equivalents and the cash generated from operations (\$64.5 million) were the primary sources of cash used to fund the net purchase of investments of \$83.7 million and the additions to property, plant and equipment of \$10.9 million.

Statement of Financial Position

thousands of \$	2008	2007	Change
Total assets	1,342,663	1,371,706	(29,043)
Key asset account changes:			
Cash and cash equivalents	1,561	30,949	(29,388)
Investments	1,108,007	1,126,735	(18,728)
Property, plant and equipment	52,874	46,754	6,120
Accounts receivable	149,473	138,055	11,418

Cash and cash equivalents

Cash and cash equivalents at December 31, 2008 was \$1.6 million (2007 – \$30.9 million), a decrease of \$29.3 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or less from the date of acquisition.

Investments

The carrying value of investments decreased by \$18.7 million during the year, a result of an increase in unrealized losses, which was partially offset by the reinvestment of positive cash flows from operations. Also included in investments at December 31, 2008 are net unrealized losses of \$21.1 million. This consists of investments with unrealized gains of \$39.5 million, less investments with unrealized losses of \$60.6 million. The unrealized losses are primarily related to common shares and the pooled international equity fund.

The investment portfolio is held to pay future claims while the income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio's asset mix strategy is set by the Board through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the Rate Stabilization Reserve, which serves to buffer the Fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long-term investment horizon. The asset mix strategy takes into consideration the current and expected conditions of the capital markets and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. Such was the case in 2008. Nevertheless, the longer-term focus remains appropriate, balancing the need for capital preservation in the short term with the desire for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2008.

The Auto Fund's investments are comprised of short-term investments, bonds and debentures, equities, mortgages and real estate. Equities include investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund. Real estate includes investment in a pooled real estate fund as well as an income-producing property in Regina, Saskatchewan. More detail on the investment portfolio categories is provided in note 5 to the financial statements.



The benchmark portfolio weights changed slightly in 2008. Within fixed income, a 5% weight was added to mortgages to reflect the higher yield on these securities. In addition, the short-term investment weight was reduced from 5% to 3% to reflect the portfolio's lower cash requirement. The offset to these changes was in bonds where the weight decreased 3% to 62%. The equity weights remained unchanged.

Property, plant and equipment

Property, plant and equipment increased \$6.1 million during the year. The primary contributors to the increase are development costs for the new Auto Fund system and costs associated with renovating the Regina Operations Centre building.

Accounts receivable

Accounts receivable increased \$11.4 million or 8% in 2008 due primarily to increases in financed premiums.

thousands of \$	2008	2007	Change
Total liabilities	1,234,476	1,131,406	103,070
Key liability account changes:			
Provision for unpaid claims	899,390	824,086	75,304
Unearned premium	282,467	260,538	21,929
Accounts payable and accrued charges	21,982	18,704	3,278

Provision for unpaid claims

The provision for unpaid claims grew by \$75.3 million during 2008 to \$899.4 million (2007 – \$824.1 million). This represents an increase of approximately 9.1% from last year. Key components of the change in the provision for unpaid claims are discussed in the *Claims incurred* section above. The majority of this increase is in injury accident benefits, and is due to a 5.4% increase in the volume of injury claims combined with inflationary cost increases.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section, *Critical Accounting Estimates*.

Unearned premiums

Unearned premiums increased \$21.9 million (8.4%), consistent with the growth in premiums.

Accounts payable and accrued charges

Accounts payable increased by \$3.3 million in 2008, primarily a result of an increase in accrued retirement benefits at the end of 2008 compared to 2007. In addition, amounts due to the Saskatchewan Ministry of Finance at the end of 2008 were higher than the prior year-end.

thousands of \$	2008	2007	Change
Equity	108,187	240,300	(132,113)
Key equity account changes:			
Accumulated other comprehensive income (loss)	(21,122)	68,300	(89,422)
Rate Stabilization Reserve	102,535	140,975	(38,440)
Redevelopment Reserve	26,774	31,025	(4,251)

Accumulated other comprehensive income (AOCI)

AOCI reflects the unrealized gains or losses related to financial assets designated as available for sale. For the Auto Fund, this includes its entire investment portfolio, excluding income-producing property. Accumulated other comprehensive income (loss), which represents unrealized gains or losses on investments, decreased primarily due to the capital market deterioration that has developed since September.

Rate Stabilization Reserve

The Rate Stabilization Reserve decreased \$38.4 million in 2008 primarily due to operations resulting in a decrease of \$42.7 million, partially offset by an appropriation from the Redevelopment Reserve as described below.

Redevelopment Reserve

A Redevelopment Reserve (the reserve) is in place to ensure that adequate funding is available to meet the Auto Fund's commitment to redevelop its information system. During 2008, costs were incurred relating to the project of \$4.3 million (2007 – \$2.7 million); therefore, the reserve was reduced accordingly with \$4.3 million (2007 – \$2.7 million) appropriated back to the RSR.

The Redevelopment Reserve was originally established at \$35.0 million, as the cost is not to exceed this amount. The project is anticipated to be complete by the end of 2010. It is required to address the antiquity of current systems, make improvements in delivering changes, offer more choices for customers, provide better and more accessible information, and better position the Auto Fund for future demands.

For the three months ended December 31, 2008

The Auto Fund prepares public quarterly financial reports for the first three quarters of each year. These reports are available on SGI's website at www.sgi.sk.ca. Click on About SGI and then on Quarterly Reports. The following analyzes the fourth quarter of 2008:

The Auto Fund recorded a fourth quarter decrease to the RSR of \$28.7 million compared to a decrease of \$30.8 million in the fourth quarter of 2007. The decline in the fourth quarter of 2008 was the result of both a \$16.5 million underwriting loss and investment losses of \$16.9 million, whereas during the fourth quarter of 2007 a \$64.0 million underwriting loss and investment earnings of \$28.3 million were recorded.

The significantly better underwriting results in the fourth quarter of 2008 were the result of an increase in premiums earned and a decrease in claims incurred. Net premiums earned for the quarter of \$152.0 million are \$15.3 million higher than the fourth quarter in 2007 (\$136.7 million) as the continued strength in the Saskatchewan economy contributed to increasing numbers and values of vehicles being insured in the province. Claim results in the fourth quarter of 2008 are also improved, primarily as a result of a significant increase to prior year claims reserves of \$34.7 million recorded in the fourth quarter of 2007.

The investment loss of \$16.9 million is substantially lower than the investment earnings of \$28.3 million in the fourth quarter of 2007. The decline in investment earnings is primarily due to investment write-downs of \$22.7 million recorded during the fourth quarter of 2008 (2007 – \$1.2 million) and lower pooled fund revenue of \$910,000 (2007 – \$8.3 million), primarily from the non-North American pooled equity fund.

Quarterly Financial Highlights

The following table highlights quarter over quarter results of the Auto Fund:

Quarterly Financial Highlights
thousands of \$

	2008					2007				
	Q 4	Q 3	Q 2	Q 1	Year	Q 4	Q 3	Q 2	Q 1	Year
Net premiums earned	\$151,998	\$155,155	\$146,144	\$134,621	\$587,918	\$136,710	\$140,208	\$145,277	\$134,892	\$557,087
Claims incurred	137,618	150,420	141,962	133,965	563,965	173,002	114,485	116,191	128,539	532,217
Increase/(decrease) to RSR	(28,694)	(9,369)	632	(5,260)	(42,691)	(30,763)	19,898	23,473	(79,913)	(67,305)
Cash flow from (used in) operations	16,448	36,274	42,164	(30,369)	64,517	13,741	3,620	51,363	(110,543)	(41,819)
Investments	1,108,007	1,125,795	1,155,389	1,092,924		1,126,735	1,096,741	1,073,868	1,135,956	
Provision for unpaid claims	899,390	887,315	849,471	830,151		824,086	777,887	776,701	773,670	
Rate Stabilization Reserve	102,535	129,598	138,072	136,518		140,975	170,938	150,311	126,061	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2008:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- Except for the first quarter, the Auto Fund generated positive cash flows from operations each quarter in both 2008 and 2007. Cash is typically low in the first quarter as annual premium taxes are paid to the province in March. Premium taxes are based on premiums written and were \$29.5 million in 2008.

Impact of New Accounting Standards

Current year accounting standard changes

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Future accounting standard changes

In February 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year.

The Corporation has commenced an IFRS conversion project including the development of a high-level IFRS implementation plan which includes stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the conversion project. Board members have been briefed on IFRS, in general, and on the Corporation's project plan.

Certain management have participated in IFRS training seminars. An initial assessment has been performed, identifying those international financial reporting standards with the highest potential for impact. Based on the analysis to date, the most significant areas of priority relate to insurance contract classification and measurement, IFRS 1 – First time adoption, financial instruments, property, plant and equipment, joint ventures, employee future benefits, consolidation and minority interest, leases and financial statement presentation and disclosures. At this time, the impact of IFRS on the Corporation's processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations are not reasonably determinable. Draft impacts on processes, systems and controls as well as draft IFRS financial statement presentation formats are anticipated in the later half of 2009.

As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Related-Party Transactions

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. See note 14 to the financial statements for the details of these transactions.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were \$104.7 million (2007 – \$96.7 million) and accounts receivable were \$2.6 million (2007 – \$3.0 million).

The Auto Fund, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Ministry of Government Services, a provincial government ministry. This lease expires in April 2011. Further details of this lease are provided in note 7 to the consolidated financial statements.

During the year, SGI Board members were appointed who are partners in organizations that provided \$74,000 of professional services to the Auto Fund and the associated accounts payable at December 31, 2008 were \$3,000. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member was appointed during the year who owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to \$1,636,000 and the associated accounts receivable at December 31, 2008 were \$3,000. Issuer fees related to these premiums were \$107,000. The above noted transactions are routine operating transactions in the normal course of business.

Off-Balance Sheet Arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, financial position or cash flows of the Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2008 was \$22.1 million (2007 – \$22.8 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered as being extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile accidents. Funding commitments, which are detailed further in note 16 to the financial statements, range between \$10.5 million and \$24.2 million per year over the next five years.

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided from 2009 to 2010 is \$7.5 million (2007 – \$6.8 million). In addition, the Auto Fund is committed to a related party until 2011 for telecommunication contracts. At December 31, 2008, the remaining commitment was \$549,000 (2007 – \$721,000).

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are described in note 2 to the financial statements. Certain of these policies involve critical accounting estimates because they require SGI as the administrator to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and impairment of investments.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that

time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, only long-term disability claims included in this provision are discounted. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

Impairment of investments

When the market value of an investment falls below its cost, accounting standards require an assessment of whether the impairment in value is temporary or other than temporary. If it is determined that the impairment is other than temporary, the investment must be written down to market value. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least 12 months;
- evaluating the size of the loss, both in percentage and absolute dollar terms relative to the market outlook for the security; and,
- for debt securities, evaluating the credit ratings from third-party security rating agencies or evaluating any change in payments on the security.

Investments are written down to market value if it is determined that the loss is other than temporary, or if the investment manager has plans for disposition of the security in the near term.

Risk Management

Risk management is a process for recognizing and addressing risks that could affect the achievement of strategic objectives. Risks are events that represent potential threats to meeting strategic objectives, and conversely help identify opportunities. On an annual basis, management identifies primary risk factors for the Auto Fund. More analysis is conducted on each risk factor by identifying specific risk events and the resulting impact on the company. Each risk event is given a rating of high, medium or low based on the likelihood of the event occurring, in the absence of any controls, and severity of the consequences if it did occur. A "high" risk is one that would have severe consequences to the Auto Fund.

Mitigating factors for each risk are then identified, along with the status of the mitigating factor, that is, whether it is presently done, or it is in process. This process results in a risk profile for the Auto Fund. The risk profile is reviewed, and input provided, by the Audit and Finance Committee of the Board of Directors. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which will provide an assurance component to the Auto Fund's risk management process. The inclusion of the Audit Services department in the risk management process, as well as the identification of risk owners, helps ensure that the mitigating measures are implemented and kept current.

The following risks are those that could have the most serious impact to the Auto Fund's strategic objectives, and that are managed to reduce those impacts. This is not an exhaustive list of all risks the Auto Fund faces.

Claims Reserves: Difficulty in forecasting claims could lead to inappropriate pricing decisions, the misstating of financial results or an inability to meet claims runoffs. Wrong pricing decisions could have significant financial implications for the Auto Fund and can result in rate increases or decreases that may be unwarranted. Misstating financial results could lead to significant public and political embarrassment and loss of public confidence in the Auto Fund.

Conducting in-house actuarial reviews three times a year is expected to mitigate this risk. As well, accounting guidelines now require that the external auditor hire an independent actuary to review the actuarial valuation. In addition, the CEO/CFO certification project is expected to add further controls to this risk.

Regulatory Environment: Inability to get Auto Fund rate changes/increases when required can lead to rate imbalance and inequities, which could accumulate over time. Corrections to this imbalance could lead to rate shock and potentially negative reaction from customers.

To mitigate this risk, the Auto Fund will take steps to maintain a sufficient surplus in the Rate Stabilization Reserve (RSR) and undertake an annual rate adequacy analysis.

Privacy: Employees divulging confidential/private information and the inappropriate or unauthorized use of private information by third parties are privacy risks for the Auto Fund. As well, improper storage, retention and disposal of corporate information and controls over customer credit card information are also privacy risks. Safeguarding the privacy of customer information is a high priority. A breach of privacy could place the Auto Fund in an awkward and embarrassing position with adverse legal consequences.

A number of structures have already been established to address this issue including the tracking of employee use of information and a screening policy for employees dealing with sensitive information. Other supporting structures that have been established are the development of a privacy framework and the implementation of a whistleblower hotline. The Auto Fund is in the process of implementing industry standards for handling payment card information and working on a data storage, retention and disposal project.

Recruitment, Retention and Engagement: Lack of requisite knowledge, skills or experience by staff, or low satisfaction or morale, may affect achievement of business objectives.

To mitigate this risk, SGI monitors competitors' salary and benefits, has implemented competency based recruitment, ensures succession planning, analyzes employee turnover, and is currently providing employee recognition training and funding. In addition, SGI has applied for employer recognition awards and has received visibility as a top employer.

Responsiveness to Business Needs: Inability to make business changes in the time frames required could mean the Fund would not remain competitive or could not meet regulatory and government deadlines.

Auto Fund customers want the company to be able to respond quickly with new programs and products. As a result, the risk of responsiveness to business needs is rated as high because of its importance to customers. Auto Fund redevelopment is a mitigating factor for the Auto Fund which, when completed, will result in a much quicker response time for customers. As well, an improved planning and project prioritization process is in place to improve response times.

Auto Fund Redevelopment: The project to replace the aging Auto Fund systems has the risk of implementation problems, including delays and increased costs, causing customer dissatisfaction and loss of public confidence in the Auto Fund.

To mitigate this risk, a detailed implementation plan is reviewed continuously and experienced technical staff and additional equipment are available to handle identified issues. In addition, monitoring tools, audit testing and risk analysis are being fully utilized.

Outlook for 2009

With the significant growth in the Saskatchewan economy, the Auto Fund is experiencing strong revenue growth as the number of vehicles has grown significantly in the province. Since the end of 2006, the number of vehicles insured has grown by over 49,000, which has grown the revenue base for the Auto Fund. But at the same time, the strong economy is impacting costs for the Auto Fund. Higher than average wage growth throughout the province impacts the labour rate paid to autobody shops to repair vehicles, along with income replacement benefits for those not able to work due to injuries suffered in an automobile accident. These costs are starting to outpace the growth in premiums, resulting in the Auto Fund realizing an underwriting loss in 2008.

Also negatively impacting the Auto Fund is the significant downturn in worldwide capital markets in the latter half of 2008. While the Auto Fund holds a well-diversified and high-quality portfolio, the value of the holdings has experienced a significant decline. The impact for the Auto Fund is a decline in its capital base and, as a result, the Auto Fund's Minimum Capital Test (MCT) has dropped below its target at the end of 2008. Based on the market value of the investment portfolio at the end of 2008, a return to the target MCT would require a 6.5% increase in the market value of the investment portfolio.

While the uncertain investment markets will continue to present a challenge for the Auto Fund, it remains focused on delivering on its vision of being the best customer-driven automobile insurance plan in Canada. The vision to be customer driven means the Auto Fund wants to anticipate the expectations of its customers and exceed them. Some of the important initiatives the Auto Fund will be focusing on in 2009 include traffic safety, environmental stewardship and the Auto Fund redevelopment project.

In 2007, the Auto Fund implemented a long-term traffic safety strategy to help save lives, reduce injuries and lower costs associated with vehicle collisions. Customers indicate they value the Auto Fund for its role in promoting road safety in the province. Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation. In 2009, the Auto Fund will continue to implement approved elements of the strategy, focusing on key areas such as reducing impaired driving, improving use of occupant protection, improving intersection safety, better speed management, additional roadway-based solutions and addressing other human factors.

The Auto Fund is also continuing to strengthen its focus on environmental stewardship in 2009. In 2008 it broadened its corporate performance reporting to include all corporate recovery, recycling and green practices. Initiatives for 2009 include improvements to buildings to increase their energy efficiency, continued automobile recycling initiatives by SGI Salvage and other corporate recycling initiatives, and the green rebate. The green rebate of 20% on insurance and registration fees rewards hybrid vehicle owners, as well as those who own fuel-efficient vehicles identified by the Government of Canada's *ecoAUTO* program for models 2006 and newer. The green rebate was first offered in 2008 and approximately 3,400 vehicle owners were rewarded an average \$172 rebate, with these numbers expected to increase in 2009.

During 2009, the Auto Fund will implement the third and fourth of five releases for the Auto Fund system redevelopment project. The project is on target to be completed in 2010 at a cost of \$35 million. The new system will offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position the Auto Fund for future demands.

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Earl G. Cameron
Acting President and CEO
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund



Don Thompson
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

February 24, 2009

Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2008 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Cara Low
Assistant Vice-President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 24, 2009

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2008 and the statements of operations, comprehensive loss, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 24, 2009

Statement of Financial Position

December 31

20082007

(thousands of \$)

Assets

Cash and cash equivalents (note 3)	\$ 1,561	\$ 30,949
Accounts receivable (note 4)	149,473	138,055
Deferred policy acquisition costs	21,608	20,270
Investments (note 5)	1,108,007	1,126,735
Property, plant and equipment (note 6)	52,874	46,754
Other assets (note 7)	9,140	8,943
	<u>\$1,342,663</u>	<u>\$1,371,706</u>

Liabilities

Accounts payable and accrued liabilities	\$ 21,982	\$ 18,704
Premium taxes payable	30,637	28,078
Unearned premiums	282,467	260,538
Provision for unpaid claims (note 8)	899,390	824,086
	<u>1,234,476</u>	<u>1,131,406</u>

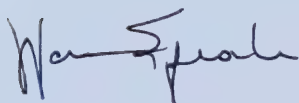
Equity

Rate Stabilization Reserve	102,535	140,975
Redevelopment Reserve	26,774	31,025
Accumulated other comprehensive income (loss)	(21,122)	68,300
	<u>108,187</u>	<u>240,300</u>
	<u>\$1,342,663</u>	<u>\$1,371,706</u>

Commitments and contingencies (note 16)

(see accompanying notes)

On behalf of the Board:



Warren Sproule
Chairperson, Board of Directors



Anne Lavack
Director

Statement of Operations

year ended December 31	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
Gross premiums written	\$ 612,743	\$ 561,568
Net premiums written	<u>\$ 610,492</u>	<u>\$ 559,246</u>
Net premiums earned	<u>\$ 587,918</u>	<u>\$ 557,087</u>
Claims incurred	563,965	532,217
Issuer fees	29,145	27,161
Administrative expenses	42,332	36,180
Premium taxes	29,510	27,970
Traffic safety programs	<u>16,345</u>	<u>13,674</u>
Total claims and expenses	<u>681,297</u>	<u>637,202</u>
Underwriting loss	(93,379)	(80,115)
Investment earnings (note 9)	29,405	91,349
Other income (note 10)	<u>21,351</u>	<u>20,769</u>
Increase (decrease) to Rate Stabilization Reserve before rebate to policyholders	(42,623)	32,003
Rebate to policyholders	<u>(68)</u>	<u>(99,308)</u>
Decrease to Rate Stabilization Reserve	<u>\$ (42,691)</u>	<u>\$ (67,305)</u>
(see accompanying notes)		

Statement of Comprehensive Loss

year ended December 31	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
Decrease to Rate Stabilization Reserve	\$ (42,691)	\$ (67,305)
Other comprehensive loss		
Net unrealized gain (loss) on available for sale financial assets arising during the year	(101,080)	7,114
Reclassification of net realized gains on sale of investments included in operations	(11,034)	(44,387)
Reclassification for investment write-downs included in operations	<u>22,692</u>	<u>1,210</u>
Other comprehensive loss	<u>(89,422)</u>	<u>(36,063)</u>
Comprehensive loss	<u><u>\$ (132,113)</u></u>	<u><u>\$ (103,368)</u></u>

(see accompanying notes)

Statement of Changes in Equity

	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
Rate Stabilization Reserve		
Balance, beginning of year	\$ 140,975	\$ 205,601
Decrease to Rate Stabilization Reserve	(42,691)	(67,305)
Appropriation from Redevelopment Reserve	<u>4,251</u>	<u>2,679</u>
Balance, end of year	<u>\$ 102,535</u>	<u>\$ 140,975</u>
Redevelopment Reserve		
Balance, beginning of year	\$ 31,025	\$ 33,704
Appropriation to Rate Stabilization Reserve	<u>(4,251)</u>	<u>(2,679)</u>
Balance, end of year	<u>\$ 26,774</u>	<u>\$ 31,025</u>
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$ 68,300	\$ –
Change in accounting policy	–	104,363
Other comprehensive loss	<u>(89,422)</u>	<u>(36,063)</u>
Balance, end of year	<u>\$ (21,122)</u>	<u>\$ 68,300</u>
Total Equity	<u>\$ 108,187</u>	<u>\$ 240,300</u>

(see accompanying notes)

Statement of Cash Flows

year ended December 31

20082007

(thousands of \$)

Cash provided by (used for):**Operating activities**

Decrease to Rate Stabilization Reserve

\$ (42,691)

\$ (67,305)

Non-cash items:

Amortization

6,186

5,029

Net realized gain on sale of investments

(11,034)

(44,387)

Investment write-downs

22,692

1,210

Change in non-cash operating items (note 13)

89,36463,63464,517(41,819)**Investing activities**

Purchases of investments

(1,204,029)

(1,639,061)

Proceeds on sale of investments

1,120,288

1,695,167

Repayment of capital lease

753

682

Purchases of property, plant and equipment

(10,917)(8,768)(93,905)48,020**Increase (decrease) in cash and cash equivalents****(29,388)****6,201**

Cash and cash equivalents, beginning of year

30,94924,748**Cash and cash equivalents, end of year****\$ 1,561****\$ 30,949**

(see accompanying notes)

Notes to the Financial Statements

December 31, 2008

1. Status of the Auto Fund

The Saskatchewan Auto Fund (the Auto Fund) was established effective January 1, 1984 by an amendment to *The Automobile Accident Insurance Act*. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No-Fault or Tort Coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve. The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events. Being a fund of the Province of Saskatchewan, it is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. Significant Accounting Policies

The accounting policies of the Auto Fund are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Auto Fund's significant accounting policies:

Change in accounting policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Auto Fund's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Auto Fund's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Auto Fund's operating results.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8) and investment valuation (note 5).

Financial assets and liabilities

The CICA Handbook, Section 3855, establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial assets and liabilities have been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as held for trading are measured at fair value and changes in fair value are recognized as an increase to its Rate Stabilization Reserve. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income, however, unrealized losses considered other than temporary continue to be recognized as a decrease to its Rate Stabilization Reserve. Financial assets and liabilities designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Auto Fund has no financial assets and liabilities designated as held for trading or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as available for sale, except for its income-producing property which is not considered a financial asset. Accounts receivable are designated as loans and receivables. Accounts payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, and the provision for unpaid claims are exempt from Section 3855.

Investments

All investments are carried at fair value, except the income producing property. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined based on quoted market values, based on the latest bid prices. The fair value of the non-North American pooled equity fund is based on the quoted market values of the underlying investments, based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates which reflect the term and credit risk associated with the mortgage. The fair value of the pooled real estate fund is based on the most recent appraisals of the underlying properties.

The Auto Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is being amortized over its estimated useful life of 50 years on a straight-line basis.

The Auto Fund records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investment earnings

The Auto Fund recognizes interest and capital lease revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims. The provision is calculated without discounting, except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment earnings, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Net investment in capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	40 years
Computer hardware, system costs and other equipment	3-5 years

Redevelopment Reserve

The Redevelopment Reserve was established, through an appropriation from the Rate Stabilization Reserve, to meet the Auto Fund's commitment to redevelop its information system. As redevelopment expenses are incurred and charged against operations, funds are appropriated back to the Rate Stabilization Reserve.

Future accounting policy changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Auto Fund, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Auto Fund's administrator, SGI, has commenced an IFRS conversion project, including initiating the development of a high-level IFRS implementation plan. An external advisor has been engaged by to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Auto Fund's future financial position and results of operations is not reasonably determinable. However, such impact may be material. As part of the IFRS implementation, the Auto Fund plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

3. Cash and Cash Equivalents

	(thousands of \$)	
	2008	2007
Money market investments	\$ 800	\$ 30,791
Cash on hand, net of outstanding cheques	761	158
Total cash and cash equivalents	<u>\$ 1,561</u>	<u>\$ 30,949</u>

The average effective interest rate on money market investments is 1.5% (2007 – 4.6%).

4. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2008	2007
Due from insureds	\$ 127,067	\$ 115,034
Amounts recoverable on paid claims	7,685	6,936
Accrued investment income	6,399	6,117
Licence issuers	3,401	4,440
Due from SGI	2,635	3,007
Salvage operations	1,425	1,778
Investment proceeds receivable	713	383
Other	148	360
Total accounts receivable	<u>\$ 149,473</u>	<u>\$ 138,055</u>

Included in due from insureds are \$123,911,000 (2007 – \$112,465,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized as other income over the period of the policy.

5. Investments

The carrying values of the Auto Fund's investments are as follows:

	(thousands of \$)	
	2008	2007
Short-term investments	\$ 31,629	\$ 55,309
Bonds and debentures	644,352	651,662
Canadian common shares	164,886	168,996
U.S. common shares	70,243	58,949
Pooled funds:		
Non-North American equity	53,363	58,655
Mortgage	71,078	66,289
Real estate	64,215	58,543
Income producing property	8,241	8,332
Total investments	<u>\$1,108,007</u>	<u>\$1,126,735</u>

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 2.9% (2007 – 4.3%) and an average remaining term to maturity of 62 days (2007 – 130 days). The Auto Fund's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Auto Fund's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio and no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Term to maturity (years)	(thousands of \$)			
	2008		2007	
	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ 61,708	3.9%	\$ —	—
After one through five	91,402	3.7%	235,336	4.1%
After five	27,224	4.3%	51,659	4.6%
Canadian provincial and municipal:				
After one through five	19,642	5.5%	26,091	5.6%
After five	166,943	5.1%	153,874	4.9%
Canadian corporate:				
One or less	1,629	4.4%	4,806	4.4%
After one through five	119,522	5.0%	62,195	5.1%
After five	156,282	5.3%	117,701	5.0%
Total bonds and debentures	<u>\$ 644,352</u>		<u>\$ 651,662</u>	

Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.4% (2007 – 1.9%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

Pooled funds

The Auto Fund owns units in a non-North American pooled equity fund, a pooled mortgage fund and a pooled real estate fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Income-producing property

The income-producing property consists of land and buildings in Regina, Saskatchewan with costs of \$1,451,000 (2007 – \$1,451,000) and \$8,754,000 (2007 – \$8,593,000) respectively and accumulated amortization of \$1,964,000 (2007 – \$1,712,000) on buildings.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. Unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of \$)			
	2008		2007	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	\$ 12,211	\$ (72)	\$ –	\$ –
Provincial and municipal	57,040	(1,242)	52,775	(597)
Corporate	186,214	(13,524)	129,109	(3,084)
Canadian common shares	94,581	(24,249)	40,792	(3,260)
U.S. common shares	40,004	(4,784)	14,017	(1,782)
Non-North American pooled equity fund	53,363	(16,713)	–	–
	<u>\$ 443,413</u>	<u>\$ (60,584)</u>	<u>\$ 236,693</u>	<u>\$ (8,723)</u>

As at December 31, 2008, the cost of 124 (2007 – 80) available for sale investments exceeded their carrying value by \$60,584,000 (2007 – \$8,723,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For common shares and the non-North American pooled equity fund, unrealized losses are primarily the result of investment-specific business environment factors related to the underlying equity investments.

The Auto Fund conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the year, investment write-downs of \$22,692,000 (2007 – \$1,210,000) (note 9) were recorded related to impairments in Canadian and U.S. common shares that were considered other than temporary.

6. Property, Plant and Equipment

The components of the Auto Fund's investment in property, plant and equipment, as well as the related accumulated amortization, is as follows:

	(thousands of \$)			
	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 6,979	\$ —	\$ 6,979	\$ 6,979
Buildings and improvements	48,060	18,608	29,452	27,451
Computer hardware, system costs and other equipment	46,446	30,003	16,443	12,324
Total	<u>\$ 101,485</u>	<u>\$ 48,611</u>	<u>\$ 52,874</u>	<u>\$ 46,754</u>

Amortization for the year is \$4,797,000 (2007 – \$3,939,000) and is included in administrative expenses on the Statement of Operations. Included in computer hardware, system costs and other equipment are unamortized costs of \$1,391,000 (2007 – \$3,278,000) associated with redevelopment of the Auto Fund's information system.

7. Other Assets

Other assets are comprised of the following:

	(thousands of \$)	
	2008	2007
Inventories	\$ 3,585	\$ 4,005
Accrued pension asset	2,775	1,282
Net investment in capital lease	1,994	2,747
Prepaid expenses	786	909
Total	<u>\$ 9,140</u>	<u>\$ 8,943</u>

Net investment in capital lease

The Auto Fund, as lessor, has a 63% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The total minimum lease payments receivable under the lease agreement are \$2,235,000 (2007 – \$3,230,000), payable at \$995,000 per year. Unearned income at December 31, 2008 is \$241,000 (2007 – \$483,000).

The fair value of the net investment in the capital lease is \$2,305,000 (2007 – \$3,127,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

8. Provision for Unpaid Claims

Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on the cost of future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Type of unpaid claims

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of \$)	
	2008	2007
Injury accident benefits	\$ 688,958	\$ 627,985
Injury liability	107,935	107,002
Damage	102,497	89,099
Total	<u>\$ 899,390</u>	<u>\$ 824,086</u>

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of \$420,615,000 (2007 – \$391,468,000). These claims have been discounted using a rate of 6% which reflects the expected claim settlement patterns and the Auto Fund's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development (PFAD) in the amount of \$36,445,000 (2007 – \$33,472,000). The incorporation of a PFAD on benefits is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claims development, reinsurance recoveries and future investment earnings.

The fair value of the provision for unpaid claims has not been determined because it is not practicable to do so with sufficient reliability.

Change in the estimate for the provision for unpaid claims

The change in the estimate for the provision for unpaid claims is as follows:

	(thousands of \$)	
	2008	2007
Net unpaid claims, beginning of year	\$ 824,086	\$ 763,554
Payments made during the year relating to prior year claims	(208,171)	(147,908)
Deficiency (excess) relating to prior year:		
Ultimate losses	(976)	(9,123)
Discounting	<u>17,904</u>	<u>17,683</u>
Net unpaid for claims of prior years	632,843	624,206
Provision for claims occurring in the current year	<u>266,547</u>	<u>199,880</u>
Net unpaid claims, end of year	<u>\$ 899,390</u>	<u>\$ 824,086</u>

Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities from various financial institutions for its claimants. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of

the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2008, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is \$22,099,000 (2007 – \$22,848,000).

9. Investment Earnings

The components of investment earnings are as follows:

	(thousands of \$)	
	2008	2007
Interest	\$ 31,450	\$ 34,223
Net realized gain on sale of investments	11,034	44,387
Pooled funds	4,747	9,185
Dividends	3,968	3,709
Income producing property, net of operating costs of \$979,000 (2007 – \$961,000)	656	742
Interest on net investment in capital lease	242	313
Investment write-downs (note 5)	(22,692)	(1,210)
Total investment earnings	<u>\$ 29,405</u>	<u>\$ 91,349</u>

Cash inflows from the income producing property are \$715,000 (2007 – \$969,000).

Investment write-downs by category are as follows:

	(thousands of \$)	
	2008	2007
Canadian common shares	\$ (19,263)	\$ (268)
U.S. common shares	(3,429)	(942)
Total investment write-downs	<u>\$ (22,692)</u>	<u>\$ (1,210)</u>

10. Other Income

The components of other income are as follows:

	(thousands of \$)	
	2008	2007
Payment option fees	\$ 16,006	\$ 15,118
Net earnings on salvage sales	5,345	5,651
Total other income	<u>\$ 21,351</u>	<u>\$ 20,769</u>

The Auto Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Total salvage sales in 2008 are \$25,949,000 (2007 – \$25,027,000).

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan which allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance (note 4).

11. Financial Risk Management

The nature of the Auto Fund's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the SGI Board of Directors, based on a recommendation from the Investment Committee of the Board. The SIP&G provides guidelines for the Auto Fund's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G.

Credit risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed as at December 31, 2008 is limited to the carrying value of those financial assets summarized as follows:

	(thousands of \$)	
	2008	2007
	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 1,561	\$ 30,949
Accounts receivable	149,473	138,055
Fixed income investments ¹	747,059	773,260

¹ Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of \$800,000 (December 31, 2007 – \$30,791,000) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable primarily relate to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less. Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver's licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

	(thousands of \$)	
	2008	2007
Allowance for doubtful accounts, opening balance	\$ 40,359	\$ 40,589
Accounts written off	(9,368)	(7,587)
Current period provision	13,988	7,357
Allowance for doubtful accounts, closing balance	<u>\$ 44,979</u>	<u>\$ 40,359</u>

The allowance for doubtful accounts includes \$36,823,000 (2007 – \$32,739,000) related to amounts recoverable on paid claims from uninsured motorists, motorists in breach of their coverage, or other insurance companies.

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bond and debentures are as follows:

	2008		2007	
<u>Credit Rating</u>	<u>Carrying Value</u> <u>(thousands of \$)</u>	<u>Makeup of</u> <u>Portfolio (%)</u>	<u>Carrying Value</u> <u>(thousands of \$)</u>	<u>Makeup of</u> <u>Portfolio (%)</u>
AAA	\$ 275,766	42.8	\$ 396,383	60.8
AA	187,102	29.0	119,726	18.4
A	153,610	23.9	128,038	19.6
BBB	27,874	4.3	7,515	1.2
Total	<u>\$ 644,352</u>	<u>100.0</u>	<u>\$ 651,662</u>	<u>100.0</u>

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The Auto Fund's investment in a mortgage pooled fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and diversification by property type and geographic regions within Canada.

Through its custodian, the Auto Fund participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2008 the Auto Fund had \$164,925,000 (2007 – \$258,648,000) of securities loaned under the program and held collateral of \$175,318,000 (2007 – \$278,051,000).

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk impacts the value of the Auto Fund's investments.

Interest rate risk

The Auto Fund is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage pooled fund. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by approximately \$42 million at December 31, 2008, representing 5.6% of the \$747 million of fixed income investments.

Foreign exchange risk

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio. At December 31, 2008, the Auto Fund's exposure to U.S. equities was 6.3% (2007 – 5.2%) and its exposure to non-North American equities was 4.8% (2007 – 5.2%). The Auto Fund has no foreign exchange exposure within its bonds and debentures.

At December 31, 2008, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$7 million decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus EAFE currencies would result in approximately a \$5 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As the U.S. equity and non-North American Pooled Fund investments are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Auto Fund's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. At December 31, 2008, equities comprise 26.0% (2007 – 25.4%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income based on changes in the Auto Fund's benchmark indices at December 31, 2008:

Change in Equity Benchmarks	(Change in thousands of \$)	
	10% increase	10% decrease
S&P/TSX Composite Index	\$ 16,489	\$ (16,489)
S&P 500 Index	7,024	(7,024)
MSCI EAFE Index	5,336	(5,336)

As all equity investments are classified as available for sale, all changes in prices are recorded as other comprehensive income and do not directly impact the Rate Stabilization Reserve until an investment is sold. No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Auto Fund is unable to meet its financial obligations as they fall due. Cash resources of the Auto Fund are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the estimated contractual maturities of the Auto Fund's financial liabilities at December 31:

(thousands of \$)

(thousands of \$)	2008					
	Carrying amount	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 21,982	\$ 21,982	\$ —	\$ —	\$ —	\$ —
Premium taxes payable	30,637	30,637	—	—	—	—
Provision for unpaid claims	899,390	147,729	72,233	86,713	159,839	432,876
	<u>\$952,009</u>	<u>\$200,348</u>	<u>\$ 72,233</u>	<u>\$ 86,713</u>	<u>\$159,839</u>	<u>\$432,876</u>

(thousands of \$)

(thousands of \$)	2007					
	Carrying amount	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 18,704	\$ 18,704	\$ —	\$ —	\$ —	\$ —
Premium taxes payable	28,078	28,078	—	—	—	—
Provision for unpaid claims	824,086	135,360	66,185	79,453	146,456	396,632
	<u>\$870,868</u>	<u>\$182,142</u>	<u>\$ 66,185</u>	<u>\$ 79,453</u>	<u>\$146,456</u>	<u>\$396,632</u>

12. Capital Management

The primary objectives of capital management for the Auto Fund is to maintain an adequate balance in its Rate Stabilization Reserve (RSR) to assist in achieving consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund's target is a range of 100% – 125%. At December 31, 2008, the MCT was 61% (2007 – 132%).

The Auto Fund's legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it

does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from its operations, along with income generated from its investment portfolio, to fund future operations.

13. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of \$)	
	2008	2007
Accounts receivable	\$ (11,418)	\$ 10,796
Deferred policy acquisition costs	(1,338)	(1,176)
Other assets	(950)	1,089
Accounts payable and accrued liabilities	3,278	(9,484)
Premium taxes payable	2,559	(25)
Unearned premiums	21,929	1,902
Provision for unpaid claims	75,304	60,532
	<u>\$ 89,364</u>	<u>\$ 63,634</u>

14. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as “related parties”).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of \$)	
Category	2008	2007
Accounts receivable	\$ 202	\$ 96
Deferred policy acquisition costs	13,791	12,663
Investments	16,978	5,812
Accounts payable and accrued liabilities	1,626	911
Premium taxes payable	30,637	28,078
Unearned premiums	3,331	3,287
Provision for unpaid claims	50	96
Gross premiums written	7,417	7,305
Net premiums earned	7,144	7,277
Claims incurred	22,842	19,161
Administrative expenses	3,813	2,954
Premium taxes	29,510	27,970
Traffic safety programs	3,032	2,664
Investment earnings	677	482

SGI acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were \$104,699,000 (2007 – \$96,657,000) and accounts receivable are \$2,635,000 (2007 – \$3,007,000).

During the year, SGI Board members were appointed who are partners in organizations that provided \$74,000 of professional services to the Auto Fund and the associated accounts payable at December 31, 2008 was \$3,000. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one Board member was appointed during the year who owns an organization that provides insurance services on behalf of the Auto Fund. Premiums written during the year from this organization amounted to \$1,636,000 and the associated accounts receivable at December 31, 2008 was \$3,000. Issuer fees related to these premiums were \$107,000. The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes.

15. Fair Value

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7) and unpaid claims (note 8) approximate carrying value due to their immediate or short-term nature.

16. Commitments and Contingencies

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents. The following is the funding anticipated to be provided over the next five years:

	(thousands of \$)
2009	\$ 24,218
2010	15,120
2011	10,500
2012	10,500
2013	10,500

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided in 2009 and 2010 is \$7,468,000 (2007 – \$6,849,000). In addition, the Auto Fund is committed to a related party until 2011 for a telecommunications contract. At December 31, 2008 the remaining commitment is \$549,000 (2007 – \$721,000).

In common with the insurance industry in general, the Auto Fund is subject to litigation arising in the normal course of conducting its insurance business. The Auto Fund is of the opinion that this litigation will not have a significant effect on its financial position or results of operation of the Auto Fund.

17. Comparative Financial Information

For comparative purposes, certain 2007 balances have been reclassified to conform to 2008 financial statement presentation.

Corporate Governance

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

National Policy 58-201 Corporate Governance Guidelines

Guideline

Composition of the Board

1. The board should have a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.

Meetings of Independent Directors

3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

Board Mandate

4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:
 - (a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;
 - (b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;

Saskatchewan Government Insurance

Yes. The Board of Directors is constituted of a majority of independent directors.

Yes. The Chair of the Board is an independent director.

Yes. The Board of Directors has meetings in-camera, during which no management is in attendance, at every Board and committee meeting, as well as on an as-required basis. There are no non-independent directors on the current Board.

Yes. The Board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation.

Yes. The Board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate.

Yes. The Board of Directors holds an annual strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of the Corporation's operating budget and goals. Further, the Board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.

Guideline

- (c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;
- (d) succession planning (including appointing, training and monitoring senior management);
- (e) adopting a communication policy for the issuer;
- (f) the issuer's internal control and management information systems; and
- (g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.

The written mandate of the board should also set out:

- (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and
- (ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.

In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards*.

Saskatchewan Government Insurance

Yes. The Board of Directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The Board of Directors has charged the Audit and Finance committee with responsibility for this function and it reports to the Board on those risks on at least an annual basis.

Yes. The Board of Directors has charged the Governance and Human Resources committee with responsibility for reviewing the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the Board.

Yes. The Corporation has a formal communications policy which has been approved by the Board of Directors.

Yes.

Yes.

Yes. The Corporation also undertakes research annually on behalf of the Board.

Position descriptions for directors were developed and approved.

Guideline

Position Descriptions

5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.

Orientation and Continuing Education

6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.

Code of Business Conduct and Ethics

8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:
 - (a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;
 - (b) protection and proper use of corporate assets and opportunities;

Saskatchewan Government Insurance

Position descriptions for directors were developed and approved. A position description for the CEO has been developed and approved. The Board has developed and approved corporate goals and objectives.

Yes. The Terms of Reference for the Board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the Board, its committees and the expectation of directors. The director position description describes a director's responsibilities.

Yes. The Board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.

Yes. The Board has adopted a written Code of Conduct for directors and a Corporate Code of Ethics and Conduct which is applicable to directors, officers and employees.

Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

Guideline

- (c) confidentiality of corporate information;
 - (d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;
 - (e) compliance with laws, rules and regulations; and
 - (f) reporting of any illegal or unethical behaviour.
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.

Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things:

- the date of the departure(s),
- the party(ies) involved in the departure(s),
- the reason why the board has or has not sanctioned the departure(s), and
- any measures the board has taken to address or remedy the departure(s).

Nomination of Directors

10. The board should appoint a nominating committee composed entirely of independent directors.

Saskatchewan Government Insurance

Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.

Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.

Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as-required basis, the Human Resources committee may grant a waiver from the code.

Not applicable.

Yes. The Board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.

Guideline

11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:
 - (a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.
 - (b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.

The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.

In carrying out each of these functions, the board should consider the advice and input of the nominating committee.

Saskatchewan Government Insurance

Yes. The Governance committee's charter is contained within the Terms of Reference.

Yes. The Governance committee undertakes a skills assessment on an annual basis.

Yes. The Governance committee undertakes a needs assessment on an annual basis.

Yes. The Governance committee reviews and recommends the size of the Board.

Yes. The Governance committee reports regularly to the Board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.

Guideline

13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.
14. In making its recommendations, the nominating committee should consider:
 - (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;
 - (b) the competencies and skills that the board considers each existing director to possess; and
 - (c) the competencies and skills each new nominee will bring to the boardroom.

The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.

Compensation

15. The board should appoint a compensation committee composed entirely of independent directors.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.
17. The compensation committee should be responsible for:
 - (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;

Saskatchewan Government Insurance

Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the Board of Directors and Crown Investments Corporation.

Yes. The Governance committee reviews the competencies and skills required for the Board as a whole.

Yes. The Governance committee reviews the competencies and skills of each of the directors.

Yes. The Governance committee reviews the competencies and skills of nominee directors.

Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the Board member responsibilities.

Yes. The Board has delegated the responsibilities for compensation to the Human Resources committee.

Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.

Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the Board.

Guideline

- (b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and
- (c) reviewing executive compensation disclosure before the issuer publicly discloses this information.

Saskatchewan Government Insurance

Yes. The Human Resources committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation.

Not applicable. Individuals reporting to the CEO, which includes all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.

Regular Board Assessments

18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:
- (a) in the case of the board or a board committee, its mandate or charter, and
 - (b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.

Yes. The Board conducts on a rotational basis peer assessments and reviews of the Board and the Chair.

Yes. The Board and its committees review their terms of reference on an as-needed basis and at least every three years.

Yes. The Board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

Independence

The matter of "independence from management" is based upon the definition set by the Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as directors and committee members or as directors of subsidiaries of the Corporation. However, the Chair of the Board of Directors is a partner in a law firm that has performed legal services for the Corporation in 2008, and is thereby deemed to have a material indirect relationship with the Corporation under the above standard. The Corporation's owner has managed this issue through the development of a protocol regarding lawyers serving on Crown Investments Corporation subsidiary Crown corporation Boards of Directors. Although not in strict compliance with the CSA standards, this protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the protocol, such as pre-approval of legal services by an independent Board committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Corporation's General Counsel reviews all charges related to the provision of legal services by external counsel. The General Counsel in turn reports to the Governance committee of the Board on any new matters undertaken by the director's law firm, other than those that are substantially similar to matters previously performed by the law firm in question. The Board Chair, Warren Sproule, is a lawyer who is subject to this protocol. All other directors, including the Vice-Chair of the Board, are independent of management. At each Board and committee meeting, the directors meet in-camera without the presence of management.

Glossary of Terms

Catastrophe reinsurance

A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Claims incurred

The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.

Combined ratio

A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.

GAAP

Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW)

Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve

Abbreviation for 'incurred but not reported'. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio)

Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Motor licence issuer

A person who negotiates driver's licences and vehicle licence/insurance on behalf of the Auto Fund who receives a fee from the Auto Fund for licences placed and other services rendered.

Net premiums earned (NPE)

The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)

Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Premium

The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax

A tax collected from policyholders and paid to the Province. It is calculated as a percentage of gross premiums written.

Prudent person

A common law standard against which those investing the money of others are judged against.

Redundancy & deficiency

Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.

Underwriting profit/loss

The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

Unearned premiums

The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

Board of Directors

Warren Sproule (Chair)

Lawyer, Kanuka Thuringer LLP
Regina, SK

Anne Lavack (Vice-Chair)

Dean, Faculty of Business Administration
Paul J. Hill School of Business
Kenneth Levene Graduate School of Business
University of Regina
Regina, SK

Merin Coutts

Sales Manager, Shaw Cable, Saskatchewan Division
Saskatoon, SK

Howard Crofts

Chartered Accountant, Meyers Norris Penny
Regina, SK

Dwight Dunn

Manager, Western Financial Group
Wolseley, SK

W.J.A. (Bill) Heidt

Retired insurance professional
Kelowna, BC

Rick Kennedy

Regional Director, Great-West Life
Saskatoon, SK

Tyrone Klewchuk

Businessman
Yorkton, SK

Rick Orr

Mortgage Broker
Prince Albert, SK

Rick Smith

Senior Vice President, Henderson Insurance
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